



425 East Cota Street, Santa Barbara, CA 93101 • 805-966-9668 • FAX 805-966-6331
EMAIL: admin@transitionhouse.com

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June 17, 2009

Steven Faulstich
City of Santa Barbara
P. O. Drawer P-P
Santa Barbara, CA 93102

RE: Mom's Apartments, Transition House, 421 and 425 E. Cota Street,
8 New Permanent Apartments for Homeless Families and Child Care

Dear Mr. Faulstich,

Transition House appeared before the Redevelopment Agency in May, 2008 to review the plan to construct eight new apartments of permanent housing for the homeless, a new child care center and space to provide supportive services on property it owns at 421 E. Cota Street, and to renovate the eight apartments owned by Transition House in the building at 425 East Cota Street. The Redevelopment Agency approved the loan request of Transition House for \$120,000 for predevelopment and design expenses for the proposed project.

Transition House hereby requests final review of its financing plan and approval of its request for \$680,000 of HOME funds toward development and construction costs. Specifically, Transition House has established a new limited partnership, Mom's L.P., a California Limited Partnership, to hold the ownership of the existing buildings to be renovated and to construct the new building. Transition House requests that the new HOME funding in the amount of \$680,000 be committed to Mom's, L.P., and that the existing loans of Transition House at this location, be approved to be assumed by Mom's, L.P., and their terms modified so that each of the loans are extended for a 60 year period, to be co-terminus with the new State financing for the project.

Project Planning Concept

This building site comprises the old "Mom's Restaurant" and is adjacent to and legally on the same parcel as our existing building with eight affordable apartments and service space. Transition House proposes to build eight new permanent housing apartments for homeless families graduating from its present shelter and transitional housing program. These 8 new units would be situated behind and above a new ground floor infant child care space for 25 infants, and other supportive services at 421 E. Cota Street. The project also envisions minor rehabilitation and improvement of the existing eight affordable units situated over the administrative offices located at 425 E. Cota Street, including upgraded windows and insulation, appliances, lighting, and mechanical equipment, and a new solar photovoltaic system.

The children served in the new Infant Care Center at 421 East Cota will come from Transition House's client base along with babies from other very low-income families participating in Transition House's Homelessness Prevention Program.

Project Development Team

Transition House now operates an eight-unit complex at 425 E. Cota Street next door to Mom's, and 70 beds at its now-fully-renovated emergency shelter at 434 E. Ortega Street, all in close proximity to the project site. Transition House also owns and operates a 19-unit affordable apartment complex located at 320 S. Salinas Street. Transition House's experience demonstrates its ability to be able to successfully manage the eight new apartments in the new building.

Transition House plans to work with the Santa Barbara City Housing Authority to manage the construction of the new facility as the developer. In 2004, Transition House successfully employed the Housing Authority's development staff to manage its \$2 million shelter renovation construction. The two agencies have collaborated since 1992 serving Santa Barbara's very low income population, and both look forward to working together on the Mom's project.

Transition House has also retained Frank Thompson Housing Consultants to prepare the finance and business plan, obtain necessary financing, including low income housing tax credits and available State and federal financing, and to work closely with the Housing Authority to manage the design and development teams.

The Housing Authority is concurrently financing the Artisan Court project (formerly Haagen Printing) across Cota Street from Transition House. If timing and other factors allow, both projects may move through some aspects of financing, and construction together, and benefit from close cooperation between the staff of each agency. In addition, the child care center to be built in Transition

House's new project, along with educational programs and career development services aimed at engendering economic stability in participants, will be offered to qualifying low-income residents of the Artisan Court project. These services are provided at the 425 E. Cota Street location as part of Transition House's Homelessness Prevention Program.

Project Financial Elements

The ability of the Low Income Housing Tax Credit program to generate large amounts of capital for new permanent housing for the homeless has been demonstrated in several recent projects in Santa Barbara. With the goal of reducing Transition House's City funding request to the minimum, safe level that can be anticipated, the ownership of the new project and existing development needs to be legally structured in a limited partnership, so that low income housing tax credits can be obtained and equity funding obtained. Transition House, with Frank Thompson's assistance, has established Mom's, L.P., a California Limited Partnership, including Santa Barbara Housing Assistance Corporation, and Garden Court, Inc. as general partners. We have applied to the State Treasurer's Office on June 9, 2009, and anticipate receiving \$ 4,230,726 in limited partner equity from low income housing tax credits toward total project costs.

Santa Barbara Housing Assistance Corporation serves as general partner in the Garden Court project, El Carrillo project, and 9 other affordable housing projects throughout California, with other housing authorities and private investors. The Housing Authority of the City of Santa Barbara is available to provide technical assistance with management, or other ongoing facilities issues if requested by Transition House.

Transition House anticipates borrowing \$1,037,174 from the State of California Department of Housing and Community Development Supportive Housing Program. This is a new program, bond-funded, to provide 55 year financial assistance for qualified permanent housing for the homeless where substantial supportive housing services are available. This supportive housing service model is currently offered at each of Transition House's properties.

Mom's, L.P. has applied to and been approved by Montecito Bank and Trust for an acquisition and construction loan in the amount of \$3,475,400 for the project. This loan would be fully repaid when the State loan is received and the tax credit equity is received by the project.

Although the exact costs to construct and develop the new facility can not be known at this time, we have based our costs on recent low income housing construction costs in the City of Santa Barbara, plus a contingency intended to cover higher costs over the estimated two-year period until the facility could be completed.

The estimated total project cost is \$7,987,453, including the cost of the eight new apartments and infant day care center at \$5,162,453. The total cost of acquisition is \$2,505,000, based on our appraisal dated June 1, 2009, including \$1,252,500 for the apartments, above, and \$1,252,500 for program and administrative space at the first floor of the building at 425 East Cota Street. The estimated costs to renovate the existing building is \$320,000.

The June 1, 2009 appraisal of Wayne Holden, SRPA, shows land value at \$4,395,000. Transition House will keep the land, free and clear, and execute a 90 year ground lease with Mom's, L.P. We seek City approval to have Mom's, L.P. assume the existing City loan for \$320,000 principal plus approximately \$100,000 in accrued and unpaid interest, and the recent City loan of \$120,000 for predevelopment. These loans would be secured against the leasehold interest and ownership of the buildings held by Mom's, L.P. The Transition House ground lease will subordinate to the mortgage financing on the buildings (City, Redevelopment Agency, Montecito Bank and Trust and State loans).

Transition House hereby requests an allocation of HOME funds in the amount of \$680,000 to be added as a loan, to the existing City financing on our property. Transition House also requests City cooperation to restructure the existing financing as follows:

- \$320,000 existing Redevelopment Agency loan for acquisition of the property in July, 1999 plus accrued interest of approximately \$100,000 as of July 30, 2009, with the loan due date extended from July 30, 2029 to July 30, 2069, subordinate to acquisition and construction financing of Montecito Bank and Trust (or similar lender) and State of California loan, and;
- \$120,000 existing Redevelopment Agency loan for predevelopment expenses of the project, with a loan due date of July 30, 2069 and 3% simple interest deferred as residual receipts through the life of the loan, subordinate to the Montecito Bank and Trust loan and the State of California loan, and;
- \$680,000 new HOME loan for development expenses of the project, with a loan due date of July 30, 2069 and 3% simple interest deferred as residual receipts through the life of the loan, subordinate to the Montecito Bank and Trust loan and State of California loan..

We have included a tabular time frame for the project, below, showing our continuing steps, culminating in construction start in May, 2010, completion in August, 2011, followed by occupancy by December, 2011.

Transition House appreciates the past support we have received from the City of Santa Barbara and we are grateful to City for considering our request.

We have included a detailed projected draw schedule for City and other predevelopment expenses, a copy of our architect proposal, a copy of our recent property appraisal, and a schedule showing the areas and cost allocations between the residential and non-residential construction, new and existing parts of the building.

Transition House has provided notice to the existing commercial and one residential tenant on the building site, pursuant to federal requirements, and has included costs of relocation in its development budget, in compliance with federal statutes.

If you have further questions, please don't hesitate to contact me at 966-9668, or the other members of our project team.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kathleen Baushke', written in a cursive style.

Kathleen Baushke
Executive Director

cc: Skip Szymanski, Housing Authority of the City of Santa Barbara
Rob Fredericks, Housing Authority of the City of Santa Barbara
Frank Thompson, Frank Thompson Housing Consultants